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INTERNATIONAL ECONOMIC COMPARISONS

The economies of the United States and other Western nations have wound up their fourth year of sustained expansion at satisfactory rates of inflation. Average growth of Western economies is expected to be mediocre in 1986, but economic policymakers believe the stage is set for more dynamic growth in 1987. The key industrial nations appeared to have made progress in the area of economic and financial policy coordination in the past year, although several important problems remain unresolved. In particular, major trading partners are showing an assertive resistance to the U.S. call for concerted fiscal expansion.

Industrial Production

U.S. industrial production increased a strong 0.6 percent during November after a near stagnation during August–October. Manufacturing output rose by 0.7 percent during November. Many analysts believe that the receding trade deficit has significantly contributed to the sudden improvement.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, -3.5 percent; France, 2.2 percent; Italy, -0.2 percent; Japan, -0.9 percent; the United Kingdom, 1.5 percent; the United States, 1.3 percent; and West Germany, -1.2 percent.

Investment

Private studies in Japan warn the country's industrialists that as a result of their efforts to beat the yen's appreciation through direct investment abroad, they are depriving the country's industrial base of resources needed at home. Direct investment abroad by Japanese firms has reached an unprecedented high of $130.0 billion, according to official Japanese statistics. The most spectacular is the penetration of Japanese capital in Southeast Asia (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). According to news reports, total Japanese direct investment in the area may have reached $13.5 billion, outstripping the $9.0 billion U.S. investment that has remained the same since 1985.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) remained 6.9 percent in November, the same as that in September and October. The national statistical offices of other countries reported the following unemployment rates: the November rate was 8.7 percent in West Germany; the October rate was 9.4 percent in Canada, 2.8 percent in Japan, and 11.5 percent in the United Kingdom. The September rate was 10.8 percent in France and 13.3 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.) The average rate of unemployment in the European member nations of the Organization for Economic Cooperation and Development (OECD) remains at 11.0 percent at yearend 1986.

According to Data Resources Inc., the U.S. merchandise trade deficit cost the Nation's economy 2 million jobs during the first half of this decade.

External Balances

The deficit in the U.S. merchandise trade account receded for the third straight month in October, falling to its lowest level in 1986. The deficit declined from $12.6 billion in September to $12.1 billion in October. The surplus in farm trade grew from $181.5 million to $745.1 million during the period, but the deficit in manufacturing trade worsened from $10.0 billion to $10.4 billion. The bilateral deficit in trade with Japan and Canada widened, but it improved in trade with the European Community and the developing countries. Analysts continue to disagree sharply over whether the U.S. trade imbalance has embarked on a long-term course of improvement.

West Germany has overtaken the United States as the world's largest exporter in current dollar terms. West German exports totaled $223.5 billion during January–October 1986 compared with $198.7 billion for the United States. The decline of the dollar against the mark has played a large part in this hitherto unprecedented ranking of international sales. At $189.7 billion, Japanese exports ranked third during the period.

Exports from the European Community showed a 12.0-percent decline during May–July 1986 compared with that in the corresponding period of 1985, according to recently released statistics. European exports to Japan increased by 7.0 percent but they dropped steeply to the rest of the world.

Calculations at the U.S. International Trade Commission showed that the trade-weighted value of the dollar was 13.6 percent higher at the end of the first quarter of 1986 than during the first quarter of 1980, when the dollar's prodigious ascent began. The ITC index is based on U.S. trade with its 15 leading partners and is adjusted for U.S. and foreign inflation. Recognition of the importance of inflation in the analysis of trade imbalances dates back to the international financial crisis of the 1920's.

There are differences of opinion among analysts as to the most appropriate statistical measurement of the dollar's external value and these differences have resulted in significantly divergent estimates of the index. For example, calculations at the Federal Reserve Board and Morgan Guaranty Trust Co. show a scale and speed of decline in the dollar's trade-weighted value from first quarter of 1985 through the first quarter of 1986 that is unmatched in the convertible currency markets since World War II. But calculations at Manufacturers Hanover Trust Co. and the Federal Reserve Bank of Dallas do not show such dramatic change.

Prices

The U.S. Consumer Price Index advanced 0.2 percent in October, following another moderate increase of 0.3 percent in September. Analysts expect the U.S. inflation rate to be about 1.7 percent for the full year of 1986, the lowest since 1964.

The inflation rate during the 1-year period that ended in November was 4.7 percent in Italy. The price level declined by 1.1 percent in West Germany during the same period. The inflation rate during the 1-year period ending in October was 4.4 percent in Canada, 2.2 percent in France, 3.0 percent in the United Kingdom, and 1.5 percent in the United States. During the same period, the Japanese price level declined by 1.0 percent.

Forecasts

Economic growth

Administration spokesmen remain confident that improvement in the trade balance coupled with expansionary monetary policy will soon rekindle the vibrancy of the U.S. economy, and real growth will accelerate from the 2.5- to 3.0-percent range in 1986 to 4.0 percent in 1987. The Conference Board's survey indicates a slower 3.0-percent growth for the U.S. economy in 1987. But upward revisions may be expected in light of the recent strong showing of U.S. industrial output. The majority of prominent economists and econometric modelers recently surveyed do not believe that a recession will occur any time before 1988. However, many of them expressed concern over projected declines in consumer and Government outlays. If the U.S. economy is to accelerate, investment and net exports will have to provide most of the incremental demand. Favorable assessments for the near-term growth of investment and exports, and consequently for the growth of the national economy as a whole, are based on the assumptions that stimulative economic policies in the United States will work and that worldwide demand for U.S. exports will expand.

The West German equivalent of the U.S. Council of Economic Advisers trimmed its earlier forecast for the real growth of the West German economy from 3.0 percent to 2.5 percent in 1986. The recently released report has also scaled back the previously projected 3.0-percent growth to 2.0 percent for 1987, but it gave an overall clean bill of health to the West German economy. According to the consensus of private economists, the Japanese economy will expand by 2.5 percent through the current fiscal year ending in March 1987. The officially stated target for the period still stands at 4.0 percent. The Canadian economy is expected to advance by approximately 3.0 percent in both 1986 and 1987.

The Bank of International Settlements projects a real GNP growth rate of 2.50 to 3.25 percent for the 10 leading industrialized nations for 1987. This is above the growth level that most analysts predict for the combined economies of these countries during 1986.

Trade deficit

The GATT forecasts that the real growth of world trade will accelerate from 1.0 percent in 1985 to 4.0 percent in 1986. GATT says that the pickup in the volume of oil exports, prompted by lower oil prices during the earlier part of 1986, is responsible for the recovery. According to all indications, U.S. trade (the sum of exports and imports) will grow considerably less than world trade, if at all, during 1986.

Most analysts agree that the elimination of the U.S. trade imbalance will take years even if progress during the years ahead is steady and definite. For example, Chase Econometrics believes that it will be sometime in the 1990's before the U.S. trade account will be in balance. Many analysts also believe that the production losses caused by unusually large doses of imports in industries such as apparel, steel, and autos during the past years will never be recovered.

Earlier forecasts of trade surpluses in 1986 for both France and the United Kingdom are being proved wrong. Economists in both countries failed to take into consideration the surge of consumer good imports prompted by the appreciation of their currencies vis-a-vis the dollar. The newest projections for 1986 signal balanced accounts or a small negative position in the trade of both countries. ■

INTERVIEW WITH LAWRENCE R. KLEIN

Professor Lawrence Klein won the Nobel prize in economics in 1980 for "pioneering econometric models to forecast economic trends." He holds the Benjamin Franklin Chair at the University of Pennsylvania and has authored numerous books and journal articles in economics. Professor Klein enjoys worldwide recognition as a leading authority on econometrics and economic forecasting. This interview with the *International Economic Review* (*IER*) focuses on his views on broad economic issues and policies.

IER: Do you see any shift in U.S. economic institutions on the scale of the New Deal in this century?

Klein: It has to be emphasized that the New Deal was a response to conditions of extended national and world economic crisis. Today, we have many economic problems but no crisis, although a crisis could occur. To some extent we have only problems and no pervasive crisis, precisely because the New Deal created many safety nets for our economic society—deposit insurance, social security, agricultural price support, and, eventually, the Employment Act of 1946. Presently, in a reaction against Government regulation and activity, we have seen a revision or erosion of some of the New Deal institutions, although a few have been strengthened.

In my opinion the main institutions will survive and regain some of their faded prominence, but the politico-socio-economic environment is not favorable for the creation of new institutions now, and if a massive crisis of long duration can be avoided, there will be no need for completely new institutions. Our financial institutions will change as markets become more deregulated and internationalized, but new national institutions need not be formed. With the increasing involvement of the United States in international economic affairs, however, we could be a party to some new international institutions to deal with the world monetary system and the newly emerging world financial system. In trade, we are more likely to enhance the General Agreement on Tariffs and Trade (GATT) than to develop new institutions.

IER: Would you care to comment on current economic policy?

Klein: For a long time, I have felt that our domestic policies were unbalanced, with far too much fiscal stimulus and too much monetary restraint. Our primary policy should be to reduce the Federal budget deficit and to compensate the recessionary impact of such reduction with easier monetary policy. These steps would serve to redress the imbalance that has occurred. I agree that tax reform was needed, but a great opportunity was missed in not calibrating the tax system so that it provided more revenue to help reduce the budget deficit. Also, I do believe that the new tax program should be amended to restore incentives for investment (investment tax credit and accelerated depreciation) and for venture capital (preferential capital gains taxation). These are not optimal policy recommendations, but straightforward and feasible suggestions.

In the international sphere, we should continue to coordinate our policies with those of our main trading partners and keep trying to persuade them—Japan, Germany, Canada, Mexico, South Korea, Taiwan, Brazil, and others—to align their policies for a path of better world economic performance (noninflationary growth).

Our present policies with respect to the exchange value of the dollar are basically correct. We should keep our financial and real economic environment on a course that will encourage continuing dollar depreciation at a steady measured pace. Lower interest rates will help. At the same time, we should pursue policies of productivity enhancement—through capital formation, for example—that will make our exports more competitive and take some pressure off dollar depreciation as the principal measure for reducing our external trade/payments deficit.

Farm policy should be humane and sociologically sensitive to the plight of rural America, but it should not violate our adherence to GATT principles or our general stance for free trade. This means that support payments that effectively bring down world prices and hurt farmers in friendly countries should be avoided as much as possible in favor of policies of soil conservation and adjustment payments for farm families who must cope with changed economic prospects. There are ways of helping our farm sector without hurting farm sectors elsewhere in the world. Of course, joint growth stimulus among the great powers will help agricultural shipments of all exporting countries.

IER: What is your forecast on the directions that U.S. trade policy will take?

Klein: There will be continued pressure to adopt protectionist measures, for specific sectors if not for the country overall. But I believe that we shall continue to resist the main thrust of these pressures as well as we have done for the past several years. Improvement of the trade/payments accounts is a *must* if resistance against protectionism is to succeed, and I sense that the declining dollar is just beginning to show through in the improving external accounts. This adjustment process will have to continue for 2 or more years, but I see definite progress ahead.

The invisibles in the trade accounts are of extreme importance, and I applaud the efforts to bring trade in services into GATT deliberations. This should continue to be a standard part of our trade policy.

Ever since the end of the Second World War, American policy has been supportive of multilateral free trade, and I do not think that this basic position will change. If our external accounts continue to improve, we should move away from our ill-founded preoccupation with this or that bilateral imbalance (Japan included) and from our tendency to conduct international economic negotiations on a bilateral basis with individual friends and foes. Eventually, we should shift back towards multilateralism in international economic relationships. ■

INTERNATIONAL TRADE DEVELOPMENTS

ITC Report on United States-Mexico Trade and Southwest Border Development

The U.S. International Trade Commission recently completed a comprehensive report on United States-Mexico trade. The report, entitled "The Impact of Increased United States-Mexico Trade on Southwest Border Development," was requested by the Senate Finance Committee and is now publically available from the Commission's Office of the Secretary. The report covers a multitude of issues and is intended to be used as a source manual on United States-Mexico trade in general and border trade in particular.

The report is in four parts. The first examines the economic effects of United States-Mexico trade on U.S. border communities. It finds that cross-border purchases are an important part of the economic base of cities along the border. The population and economic activity of the border region is concentrated in 14 twin cities, each one being a U.S. city with a Mexican counterpart. The study finds that the twin cities provide an important link between the economies of Mexico and the United States and that a large portion of import and export traffic between the two countries passes through them.

The second part of the study reports on Mexican trade programs affecting United States-Mexico trade. Generally, U.S. exports to Mexico have been subject to regulation by the Mexican Government. However, in 1985 Mexico accelerated the reduction of import control that began in 1984, made major changes in the customs tariff schedules, and reduced the overall level of tariff protection. In 1986, Mexico became a member of the GATT.

The third part of the study reports on U.S. trade programs that affect United States-Mexico trade. U.S. imports from Mexico are encouraged under such programs as the Generalized System of Preferences, the provisions of items 806.30 and 807.00 of the Tariff Schedules of the United States, and by the existence of foreign trade zones. Conversely, some imports from Mexico are restrained by the Multifiber Arrangement, steel export restraints, and restrictions on certain Mexican agricultural products. Most imports from Mexico receive most-favored-nation (MFN) tariff treatment, which means that they receive the same tariff rate as imports from all trading partners with MFN status.

The last part of the report describes various other trade programs and efforts at bilateral cooperation that affect trade and development along the United States-Mexico border. It also reviews suggestions for new programs to encourage trade between the United States and Mexico and to promote economic development along the border. ■

Statutory Trade Cases: U.S. and Canadian Experience

The area of trade remedy law is quite significant in the ongoing negotiations toward a United States-Canada free-trade agreement. Actions taken under each country's statutes will provide the background for any bilateral resolution of future disputes.

There are presently no escape-clause cases involving Canada before the U.S. International Trade Commission. There are, however, two dumping and two subsidy cases. These cases involve fresh cut flowers, brass sheet and strip, and softwood lumber. Of the 21 escape-clause investigations undertaken by the Commission from 1980 to the present, Canada has been a source of imports in 11 cases and a significant trading partner in only 7. Of these seven cases, negative determinations were made in three instances: fish, automobiles, and, most recently, steel fork arms. Affirmative determinations were made in four cases: mushrooms, carbon and certain alloy steel products, copper, and, most recently, wood shingles and shakes.

Cases of unfair practices in import trade generally involve violations of intellectual property rights. The Commission has heard 16 such cases in which Canada was charged with violation during the nearly 7 years since 1980. Four of these cases resulted in exclusion orders being voted by the Commission, but in one (Duracell alkaline batteries), the President disapproved the Commission's action. Exclusion orders are currently in effect against spring assemblies and components, cube puzzles, and apparatus for installing electrical lines and components.

Since 1980, the Commission has conducted 13 countervailing duty investigations in which products from Canada were subject to examination. In three of these cases—those involving live swine, oil country tubular goods, and certain fresh groundfish—the Commission determined that an injury occurred, and countervailing duties were ultimately assessed.

Seventeen antidumping cases against Canada have been considered by the Commission since 1980. Eleven of these continued to the final stage of investigation, and of these 11 cases, 6 were determined to have resulted in injury to the U.S. industry producing like or directly competitive products. The injury determinations led to antidumping duties being assessed on the following imports from Canada: sugar and syrups, choline chloride, certain red raspberries, certain dried salted codfish, iron construction castings, and oil country tubular goods.

Given the level of trade between the two countries, the volume of Commission statutory activity against Canada is not significant. In fact, the total value of Canadian imports that were the subject of investigation by the Commission during 1985 was approximately $830 million, or less than 2 percent of all Canadian imports during that period.

Canada has a Government agency similar to the U.S. International Trade Commission, called the Canadian Import Tribunal. It is charged with determining whether certain imports into Canada are causing material injury or retardation to Canadian industry. The Tribunal's inquiries result in the issuance of findings or reports. Findings of material injury establish the basis under which Canadian antidumping or countervailing duties are levied. Between 1980 and 1985, 376 antidumping actions were taken by the Tribunal, and 69, or less than 20 percent, were against the United States. At the end of 1985, Canada had 53 antidumping orders in effect, 14 of which (or 26 percent) affected products imported from the United States. [Given the fact that the United States accounts for over three-fourths of Canada's trade, these percentages are not excessive.] The U.S. products subject to Canadian dumping duties are bottoming materials (adhesive soles and heels), charcoal briquets, cutting and creasing steel rules, electric induction motors, industrial woodcutting band saw blades, photo albums and self-adhesive leaves, porcelain insulators, potatoes, soda ash, stainless steel, nickel and nickel alloy pipe and tubing, surgical gloves, vehicle washing equipment, and water resistant steel pipe.

During 1980–86, 16 countervailing duty actions were taken by the Canadian Import Tribunal, only 1 of which was directed against products of the United States. Last month a Canadian investigation into subsidized U.S. products resulted in a provisional Countervailing duty of $1.048 per bushel being assessed against grain corn from the United States. The Tribunal is currently reviewing the case and is expected to make a final injury determination by March 9, 1987. Its decision will determine whether or not the provisional duty becomes permanent. An affirmative finding would mean that for the first time a countervailing duty will be imposed by Canada on a U.S. import.

One of the proposals for any free-trade agreement calls for establishing a joint Canada-United States trade commission to handle disputes involving one country's imports from the other. Without knowing the specifics of a bilateral agreement, it would be premature to discuss the details of any institutional mechanism that may be set in place. However, the operational principles that could undergird the functioning of a bilateral mechanism are open to review. Such a mechanism could be a standing body, separate from existing institutions, whose responsibilities would include the provision of independent, objective analysis, and joint factfinding. The joint trade commission could offer advisory opinions and recommendations on matters of bilateral dispute. The strength of the commission would come from the recognition of its advice by each Government. This presumes that appointees to the body would be recognized experts with a reputation for objectivity and political sensitivity. Such a mechanism, whose recommendations would have a high degree of acceptability by both Governments, would be a major advance in the bilateral relationship and a significant example to other trading partners at the beginning of a new multilateral round of trade negotiations. ■

South Korean Money Goes Offshore

Direct overseas investments by South Korean companies in 1986 are well above the total recorded in 1985. The South Korean concern about increasing protectionism in Western markets has fueled the rise in offshore productive investments. The Ministry of Trade and Industry has indicated that it will give added support to companies planning to make oveseas investments, particularly in the United States. The South Korean Government already offers financial assistance and tax breaks for approved projects.

Manufacturers of electronics and automobiles have evidenced their concern about possible protectionist measures in major markets by their readiness to invest in local production in key markets. This year, both Goldstar and Samsung have announced plans to invest in the production of consumer electronics in West Germany and the United Kingdom—a move undoubtedly prompted by the European Community's decision to raise tariffs on video tape recorders from 8 percent to 14 percent. Similiarly, Hyundai's decision to build a car assembly plant in Canada was partly in response to that country's plans to raise tariffs on automobiles. Concern about the future of steel exports to the United States prompted Pohang Iron and Steel Co. (Posco) to announce, in late 1985, its plans to make the largest single foreign investment ever by a South Korean company. The project is a 50–50 joint venture with USX (formerly known as U.S. Steel Corp.), which will invest $400 million in modernizing and expanding USX's steel facilities in the United States.

The largest share of investment money has been in mining (which includes all overseas resource development), followed by manufacturing. A large amount of the total has gone into a number of very small projects. These have typically been undertaken by very small companies and often involve labor-intensive industries such as textiles. ■

STATISTICAL TABLES

Industrial production

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
United States	5.9	11.2	2.0	2.1	1.9	1.2	-2.1	2.3	-6.5	0.0	7.0	1.9	1.0	0.0
Canada	5.3	8.8	4.3	9.4	6.1	-.9	-	-	-21.9	-	-	-	-	-
Japan	3.5	11.1	4.6	-.4	-2.9	.7	.9	-3.1	4.0	4.0	-1.9	-28.0	36.2	-
West Germany	.3	3.3	3.9	.1	.8	.0	10.5	-	-32.8	41.0	-22.2	-3.4	-	-
United Kingdom	3.9	1.3	4.8	.4	.7	3.5	-1.3	6.1	-19.7	-14.5	30.3	6.8	9.0	-
France	1.1	2.5	.5	7.3	.0	-5.8	6.2	9.2	-46.5	31.2	9.2	.0	-8.4	-
Italy	-3.2	3.3	1.2	-2.5	-1.8	11.7	7.1	-13.9	-43.5	89.8	-34.3	-42.2	73.1	-

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Dec. 5, 1986.

Consumer prices

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
United States	3.2	4.3	3.5	2.6	4.3	1.4	-1.7	2.6	2.2	5.7	.4	2.2	4.1	1.8
Canada	5.8	4.3	4.0	3.4	4.4	4.7	3.0	4.7	5.0	.3	7.8	5.4	3.3	5.9
Japan	1.9	2.2	2.1	2.1	2.1	.4	.9	-2.0	1.5	.6	-3.5	-2.4	6.2	1.2
West Germany	3.3	2.4	2.2	.2	1.0	-1.0	-1.1	-.6	.2	.4	-2.5	.8	.7	-4.8
United Kingdom	4.6	5.0	6.1	3.0	3.2	4.2	.5	2.6	1.0	1.2	1.0	2.4	8.0	2.9
France	9.5	7.7	5.8	4.3	3.2	.9	1.7	2.7	2.6	4.5	1.1	2.7	4.7	2.0
Italy	14.9	10.6	8.6	7.2	6.9	5.9	5.1	5.1	5.8	6.6	3.8	6.8	2.3	1.6

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Dec. 5, 1986.

Unemployment rates

(Percentage; seasonally adjusted; rate of foreign countries adjusted to be roughly comparable with U.S. rate)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 June	July	Aug.	Sept.	Oct.	Nov.
United States	9.6	7.5	7.2	7.2	7.0	7.1	7.2	6.9	7.1	6.9	6.8	7.0	7.0	7.0
Canada	11.9	11.3	10.5	10.2	10.1	9.7	9.6	9.7	9.5	9.9	9.7	9.5	9.4	-
Japan	2.7	2.8	2.6	2.7	2.9	2.7	2.8	2.9	2.8	3.0	2.9	2.8	-	-
West Germany	7.4	7.8	7.9	7.9	7.8	7.8	7.6	7.5	7.6	7.5	7.5	7.4	7.4	-
United Kingdom	11.9	11.7	11.3	11.3	11.3	11.5	11.7	11.6	11.7	11.7	11.7	11.4	11.4	-
France	8.6	9.9	10.4	10.4	10.1	10.2	10.5	10.7	10.5	10.6	10.7	10.6	10.6	-
Italy	5.9	5.9	6.0	6.0	6.3	6.3	6.5	6.1	-	6.1	-	-	-	-

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, December 1986.

Trade balances

(Billions of U.S. dollars, f.o.b. basis)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
United States[1]	57.8	-108.1	-132.9	-128.0	-147.2	-154.4	-139.6	-152.0	-153.6	-140.4	-183.6	-142.8	-133.2	-129.6
Canada	14.4	15.9	12.8	8.8	11.6	6.8	8.0	4.4	8.4	3.6	2.4	4.8	9.6	-
Japan	31.5	44.0	55.9	57.2	67.6	71.6	89.2	102.8	100.8	80.8	96.0	105.6	105.6	100.8
West Germany	16.6	18.8	25.3	27.6	29.6	40.8	52.8	60.0	38.4	63.6	62.4	63.6	56.4	49.2
United Kingdom	-1.3	-5.7	-2.6	-2.4	-1.2	-8.4	-9.6	-18.0	-13.2	-10.8	-10.8	-26.4	-15.6	-14.4
France	-5.9	-2.8	-2.6	-3.2	-1.6	.4	-4.4	1.2	-3.6	-2.4	-2.4	6.0	-4.8	.0
Italy	-7.9	-10.9	-11.9	-4.4	-14.4	-11.2	.8	2.8	1.2	1.2	-7.2	20.4	-7.2	-7.2

[1] Exports, f.a.s. value, unadjusted; imports, customs value, unadjusted.

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Dec. 5, 1986.

Italy...........

U.S. trade balance, by major commodity categories and by selected countries

(Billions of U.S. dollars, customs value basis for imports)

Item	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
Commodity categories:														
Agriculture	20.0	18.4	9.6	1.7	2.5	1.7	0.0	0.5	-0.2	-0.1	-0.1	0.3	0.3	0.8
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-11.0	-12.6	-10.6	-7.2	-7.2	-2.3	-2.8	-2.6	-2.1	-2.5	-2.2
Manufactured goods	-31.3	-78.9	-102.0	-24.9	-29.7	-31.1	-32.4	-36.1	-10.7	-11.7	-15.0	-11.1	-10.0	-10.2
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-5.7	-7.1	-6.6	-8.0	-7.3	-2.3	-3.4	-3.7	-2.1	-1.5	-1.0
Canada	-12.1	-20.1	-21.7	-4.7	-6.8	-5.9	-5.8	-5.9	-2.1	-1.9	-2.3	-2.1	-1.5	-1.5
Japan	-19.6	-33.8	-46.5	-12.0	-12.5	-14.3	-12.5	-13.5	-4.7	-3.4	-5.2	-4.4	-3.9	-4.7
OPEC, unadj	-8.2	-12.3	-10.2	-2.4	-3.7	-3.5	-1.5	-2.1	-.6	-.8	-.7	-.5	-.9	-.6
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$25.98	$26.35	$22.70	$13.40	$11.41	$13.29	$12.97	$11.75	$10.89	$11.59	$12.28

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Summary of U.S. Export and Import Merchandise Trade*, U.S. Department of Commerce, October 1986.

Money-market interest rates (90-day certificate of deposit)

(Percentage, annual rates)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 June	July	Aug.	Sept.	Oct.	Nov.
United States	9.2	10.7	8.3	7.9	7.8	7.6	6.5	6.0	6.7	6.4	5.9	6.0	5.8	5.7
Canada	9.5	11.3	9.7	9.1	9.0	11.1	8.9	-	8.7	8.4	8.4	8.5	8.5	-
Japan	6.8	6.7	6.5	6.3	7.0	6.0	4.7	-	4.5	4.9	4.5	4.8	4.5	-
West Germany	5.7	6.0	5.5	4.9	4.8	4.5	4.6	4.5	4.6	4.4	4.3	4.4	4.6	-
United Kingdom	10.1	9.9	12.1	11.5	11.6	11.9	10.1	9.9	9.7	9.9	9.6	10.0	11.1	-
France	12.4	11.7	10.0	9.7	9.1	8.7	7.4	7.2	7.2	7.4	7.1	7.1	7.5	-
Italy	18.2	15.9	15.0	14.4	14.3	15.5	12.9	11.4	11.8	11.9	11.0	11.2	-	-

Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: Statistics provided by Federal Reserve Board.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential

(Index numbers, 1980-82 average=100; and percentage change from previous period)

Item	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 June	July	Aug.	Sept.	Oct.	Nov.
Unadjusted:														
Index number	114.2	122.4	127.1	125.0	117.3	117.8	106.7	102.8	106.5	104.0	102.3	102.2	102.1	103.4
Percentage change	4.0	7.2	3.8	-4.8	-6.2	.4	-4.6	-3.7	.8	-1.5	-1.5	-.1	-.1	1.3
Adjusted:														
Index number	112.7	119.6	122.5	119.4	112.0	106.3	99.1	96.9	102.1	99.7	98.1	97.5	98.3	99.6
Percentage change	2.6	6.1	2.4	-3.9	-6.2	-5.1	-6.8	-2.2	.6	-2.4	-1.6	-.6	.8	1.3

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the U.S. and in these other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York.

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